HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Industrial Strategy, HC 616

Thursday 8 December 2016, Durham

Ordered by the House of Commons to be published on 8 December 2016.

Watch the meeting

Members present: Mr Iain Wright (Chair); Anna Turley; Chris White.

Questions 346 - 441

Witnesses

I: Edward Twiddy, Chief Innovations Officer, Atom Bank, Jane Mee, General Counsel, Hitachi Rail Europe, and Dr Jennifer Thompson, Head of Partnerships and Engagement, Durham university.

II: James Ramsbotham, Chief Executive, North East England Chamber of Commerce, Graham Robb, Board Member of the South Tees Development Corporation and Chair of North East Institute of Directors, and John Elliott, Chairman, Ebac Ltd.

III: Nigel Foster, Director of Strategy, Transport for the North, Councillor Iain Malcolm, North East Combined Authority, and Andrew Lewis, Managing Director, Tees Valley Combined Authority, and Anna Round, Senior Research Fellow, IPPR North.

Industrial Strategy written evidence

Examination of Witnesses

Witnesses: Edward Twiddy, Jane Mee and Dr Jennifer Thompson.

Q346 **Chair:** Good afternoon. Thank you for attending the Select Committee. It is great for the Select Committee to be outside of Westminster and in God's own country of the north-east. I want to thank Durham University and St Aidan's College for helping to host this. For the purposes of the record, could you introduce yourselves and tell us the organisation or company you are representing, starting with you, Jennifer.

Dr Thompson: I am Jennifer Thompson. I am Head of the Partnerships and Engagement team at Durham University.

Jane Mee: I am Jane Mee. I am General Counsel and on the executive of Hitachi Rail Europe.

Edward Twiddy: Hello. I am Edward Twiddy. I am the Chief Innovations Officer and one of the founders of Atom Bank based here in Durham.

Q347 **Chair:** The Select Committee is looking at industrial strategy and, essentially, trying to make some recommendations for when the Government publishes their own industrial strategy. May I begin by asking your opinion: do we in the UK have an industrial strategy already?

Dr Thompson: We have seen a number of different documents that are either entitled "industrial strategy" or are in that area. As a university, we also have other documents that impact on the way we engage with industrial partners. Over the past few years we have seen a plethora of different strategies, all of which impact. That is a very relevant word because, for example, our research excellence framework is one of those complementary drivers that is developing how we set our priorities in the HEI sector.

Q348 **Chair:** Jennifer, you said "plethora". Was that used as a pejorative term in that regard, far too many strategies and counterproductive to what the Government or what the country requires?

Dr Thompson: They are numerous.

Chair: That sounds even more of a pejorative term.

Dr Thompson: They are numerous and it takes an effort and time to look at how they interlink and understand that landscape. Of course we put that time in, but I would think all of us would agree that consistency is something that we all want to see for working in one direction. An example I can give you is the Witty review, which made certain recommendations. That happened to be a review where many of the recommendations were not taken forward particularly in the way in which they emerged from the review. That particular review was a bit of a curve, a bit of a change in direction. It looked like we were going one way but then we came back into a slightly different direction again, so that is an example of that.

Q349 **Chris White:** I am sure the others will answer your question, but you said "plethora" and you said "numerous". Does that mean that what you have seen have not been strategies? They have been elements.

Dr Thompson: They are complementary. They are different types of documents but they are all—

Q350 **Chris White:** They are different initiatives?

Dr Thompson: Yes, they are different initiatives from different angles, but, as a university, if we have to think about how we are going to meet the objectives that we are set we need to take them all into account.

Q351 **Chair:** Before I bring you in—because this is really interesting—you talk about a plethora and numerous, as Chris was mentioning, and you also mentioned, I think, consistency. Are these different initiatives consistent or are they often contradictory? Is one of the problems that you do not have strategic co-ordination across Government? One Department might want to do one thing, or even one part of an individual Department might want to do one thing and someone else is doing something that could be quite the opposite. Is there enough strategic co-ordination across Government to provide an industrial strategy?

Dr Thompson: The industrial strategy, for example the eight great technologies, was very clear but you had unintended consequences. For example, from the areas illustrated there, if you then look at the work that the LEPs do to look at local strategies you will find that it is not going to match. What you have at a national level does not always match what you have at a local level. You may then get gaps in provision locally, where the funding streams and the direction of travel will not 100% match your local needs.

Q352 **Chair:** That is very helpful. I think we will come back on to that. Jane, what is your perspective?

Jane Mee: My perspective is focused on the rail industry. We are seeing increased investment in rail and promises of more investment with big infrastructure projects, like High Speed 2. That is part of an industrial strategy but I don't think it is characterised as being or spoken about in those terms. It could be a constituent part of it but we don't perceive it as being articulated in a joined-up way.

Q353 **Chair:** Is that a problem or, in terms of your business and perhaps your supply chain, are you getting what you need anyway?

Jane Mee: I don't think we perceive it as a problem. I suppose there is the thought that maybe it is a lost opportunity because, if it was part of a joined-up strategy, there might be more opportunity for maximising potential, consolidating opportunities and giving people the confidence that, if they make an investment, there are going to be opportunities to realise the benefits of that investment because it is part of a wider strategy.

Q354 **Chair:** May I push you on that? You talk about missed opportunities. What other opportunities could Hitachi and the wider rail supply chain have if we had a joined-up, strategically co-ordinated position?

Jane Mee: In some ways we don't know what we don't know but, for example, there has been a commitment to invest in a digital railway. That is going to require investment from companies like mine and other people in the supply chain. There is the potential to frame that in such a way that increases confidence. That could then bring more benefits from people's willingness to engage in supporting that initiative.

Q355 **Chair:** Ed, what is your perspective?

Edward Twiddy: I recognise the points you make, Chairman, about initiative. I have been a civil servant and I then moved out into the public sector through a period of facing off, I guess, to Government by running one of the local enterprise partnerships in the north-east. It is a transition from somebody whose success was measured by the number of mentions your policies had in a speech, or the number of tax reforms you and your team were responsible for in a budget. Those were the incentives for success at times because that meant that you had ministerial contact and you had Ministers who thought you were contributing. I was facing back into that and seeing that that was happening in five or six key Departments for UK productivity simultaneously—I was dealing with transport, infrastructure, housing, skills, university engagement—and then trying to make sense of it. I think Jennifer was kind in her words. At times it can be too complicated for people to want to engage with.

Sitting in the private sector now, I have fairly straightforward needs of a central government industrial strategy and they are all about the things that drive productivity. Those are the inherent contributors to the failures that a single company can't overcome. I can't influence those core pieces of infrastructure and investments at risk. When I was in Treasury we used to be risk averse; we would move away from risk. I think the role of Government is to face risk down in a way that capitalism won't. Capitalism is very rarely lined up with the idea of facing risk down; it wants that taken away.

Q356 **Chair:** Ed, you are very interesting and I want you to wear all your hats simultaneously. You were a senior Treasury civil servant, somebody who ran a LEP. Now you are a senior officer in the private sector in the financial services industry. What is possible for an industrial strategy that can benefit companies, the population and business as a whole?

Edward Twiddy: I find it very hard to agree with policies that are overtly sectoral or overtly regional. I think you need sensitivity to both spatial difference and sectoral difference, but I go back to my point about productivity. A much more important economist than many that work today once said productivity isn't everything but in the final assessment it is most of it, and he was right. There is nothing that tells us that you drive up wellbeing, and from that employment and from that success and from that mental health, and all the benefits of people coming into contact with each other in a rich society unless you are driving productivity growth.

Q357 **Chair:** The productivity plan from the Government in—whenever it was—2014-15, did not work?

Edward Twiddy: I think it is very hard to judge. We are three years away from that. Productivity has always been a core focus, certainly of the Treasury and I know also of the Business Department, and will continue to be forever. If industrial strategy simply was saying, "We have one problem and it is we are not productive enough" then you could take, "This is the problem, let's create a strategy". I have not seen a Government coming together and saying, "This is the problem". Unless you identify the problem, I don't know how you create a strategy.

Q358 **Chair:** I think Anna wants to lead on that spatial and national industrial dimension, but I want to ask one final question to Jane and Ed. Jane, you are a global company, pouring direct investment into the north-east. Ed, Atom Bank is a marvellous, start-up, innovative bank. What attracted you to the north-east? I am very glad that you are here but why are you here?

Jane Mee: I wasn't with the company when we made the decision to locate in the north-east, but my understanding of why we are here is: it was a location that could provide us with the workforce that we need with some transferable skills, which we could then adapt for our manufacturing. We were also very conscious of the heritage links to rail within the north-east and that was a nice-to-have as part of the location, but also very practical things. The site has good links to the main line. That is useful if you are making trains and then transporting them.

Q359 **Chair:** You didn't mention Government assistance. I wonder whether active intervention from the state, through an active industrial policy, would have helped facilitate it but that did not really—

Jane Mee: I don't know whether that was a driver or not. If you would like some information on that I can certainly come back to you afterwards. From the conversations that I have had since I joined the company, I am not sure that that was a decisive factor.

Q360 **Chair:** From Atom Bank's perspective, Ed, why the north-east and is there any perspective on an industrial strategy?

Edward Twiddy: I think it was the Department for International Trade that recently produced a document describing centres of excellence in financial services and the north-east does not feature at all. If you were going by what the maps tell you, then there is no reason why the only top 10 business in the recently published global list of fintech businesses would be in Durham for the UK. We should be in Shoreditch. We could possibly be in Leeds, maybe in Edinburgh but certainly not in Durham.

The reason we are here is that we had a group of founders, some coming from First Direct in Leeds, some with a familial link. Our chairman was born in Gosforth, and I was living in Durham and the reason for that was that I was brought up on Teesside originally and had come back to the north-east to bring up my family. We stayed here to create the business because we found angel investors who were willing to put equity in. We needed £3.5 million, £4 million to get going. All bar £500,000 of that came from private individuals from this region.

Q361 **Chair:** Again, Government was irrelevant in this?

Edward Twiddy: It became very relevant. On that basis we were going to be close to the A1 and somewhere in the north-east, but the deal with those angel investors was, "Do it but we want headquartered businesses in the north-east". I will be honest; my first assumption was we would be on the Quayside in Newcastle. We ended up in Durham, because of the availability of good quality land and premises and a huge amount of help and support from the county council who provided us not only with an immediate grant in aid but also premises where we paid them rent. For the first two years of our existence they invested that rent in equity in our business.

Q362 **Anna Turley:** Following on from the geographical perspective, the question I want to ask is about the age-old dilemma that: if you are designing an industrial strategy from central government, do you break it down into a geographical regional approach or do you do it on an sector-based approach? I got knocked off the track by what you were saying about productivity there; essentially almost saying you start with the problems. I don't know if that is where you were going with it. If you were all advising central government on how to do an industrial strategy, would you be saying, "Let's look on an geographical basis" or would you be doing it from a sector—automotive, rail—or would you start with what are the problems: is it infrastructure? Is it productivity? What sort of approach would you be taking?

Edward Twiddy: I wouldn't be aspatial and I wouldn't be ignorant of the specialisms we have as a country and an economy, but let's take the place we are at the moment. This university has some fabulous specialisms in science, technology and mathematics in particular. We have a great relationship with them—a knowledge transfer partnership funded by Innovate UK—but what it is really known for is the quality of its humanities. I am a geographer, our chief executive is an historian, our CFO is an economist, and yet all I hear about when it comes to higher and further education is STEM. I want people to be taught to be part of an economy that is much broader and I want them to be taught to be usefully engaged and productive.

I go back to the productivity point. I don't think that that is done by choosing a sector or a place. I think it is done by improving quality and then connectivity and then government taking risks where the private sector won't go and, to a certain extent, allowing a hugely interconnected world, an engaged world, to find the winner.

Q363 **Anna Turley:** Essentially, what you are saying is from industrial strategy you don't want the Government to say, in almost a top-down, slightly oppressive way, "This is what we are going to do for the north-east or this is what we are going to do for a sector". You want it to get fundamentals right like broad education, decent infrastructure. Is that what you are saying?

Edward Twiddy: The days of bicycles in Gloucestershire and turnips in Norfolk have gone. PG Wodehouse was a fantastic character who pilloried the idea in the 1930s and 1940s. We ought to be thinking about economies as genuine melting pots of innovation, invention, destruction and creation, and let the private sector take the weight of that. Instead, let the public sector fuel it with highly skilled people with all kinds of backgrounds, all kinds of access to training and skills, and bring them together in as efficient a way as possible. You can explain the vast majority of the growth of the south-east economy, absent the ups and downs of the financial services sector, purely by population growth. It is the fitting together of people that creates opportunity and enterprise, innovation and failure and restart.

There are things you can do with capital markets more patient. We are fantastically lucky that Neil Woodford is one of our backers and we sit within his patient capital agenda. In the UK we don't have a great attitude towards the time that we allow for businesses to take off and grow. We don't see enough of those small businesses grow rapidly over the five, six, seven-year horizon because venture capital wants a three-year return.

There are things we can do there but they are not about picking a region, picking an economy. That doesn't mean that one size fits all by any means at all. I firmly don't believe that. One of the great achievements of the RDA, from One North East, was the creation of the Jeremy Fund. I am delighted to hear that there is likely to be a Jeremy 2 for the region. We had nearly 5% of the population, about the same proportion of SMEs and about 2% of the equity funding was going into the north-east before that came around. We now have 5% to 6% of the equity funding for SMEs in the region. That has transformed the opportunity for small businesses to become more than five employees into the 20, 30, 40, 50 and beyond employees.

Q364 **Anna Turley:** Thank you. Jane, what is your perspective?

Jane Mee: My perspective is that whatever route you take, be it regional or otherwise, or sector driven, if it is not underpinned by effective transport and transport links then it is going to have limited impact. The announcement yesterday of bringing forward the Oxford to Cambridge rail link is a good example of the recognition of that.

Dr Thompson: I would also agree that there are limitations to the sectoral approach, although I can also see some advantages. There are areas where there is a new strand of endeavour—take biotech a few years ago—where there is really a need for Government support, potentially, to get that going, to get the industrial side of that going, and then from our perspective it is linking developments in research and translating those across into industry. I can see that there is a role for a sectoral strategy. There are some advantages to it.

However, there are the disadvantages, as I already mentioned, that those don't necessarily align at a national level to a local level or only partly overlap. You will find you have some emerging platforms or technologies that underpin all. Digital technologies is a case in point where we are seeing deep learning AI emerging but that is not sectoral; that is cross-cutting. If we have a sectoral approach how do we support that? So we are very much limiting.

There is also the option of a mission-based approach, as in taking an urgent need in society, whether that be an ageing population or a local carbon economy, different concerns that are in society and looking at focusing things around those. That has an advantage that you do get the multidisciplinary, so I am very much with Ed for bringing people together, particularly diverse groups of people, to work on important problems. To use your word, Ed, it is a productive way of doing things and also a very innovative way of doing things. I am afraid that answer is pretty much a no answer because there are pros and cons of the different approaches.

In terms of place, it was quite interesting—if I take an example from my area—trying to focus research funding in particular areas. That can lead to situations where sometimes, for political reasons or jostling between different competitors, one group might end up receiving funding and another perhaps slightly less graded group might receive none. To me, that does not look like a good way of using our funding either, whether it is to support industries, sectors or anything else. Surely we want to make sure that all of those areas in which we excel have something they can tap into. I would hope that we can design an approach that will try to address that multiplicity. Although I am for simplicity, in this case I think a complex solution or at least some kind of three-tier solution is going to be required to really tick all the boxes.

Q365 **Anna Turley:** If I can come back on that, I was really interested in the point you made about a mission-based approach. It is quite an interesting take, so low carbon economy. Starting from that perspective, what do you think would be the mission-based approach of this Government or any Government looking to improve the economy and drive it?

Dr Thompson: I would hope they wouldn't do that. Basically, that is my answer. I hope that a review would pull out some key themes around which those could be one set of drivers, but recognising that, potentially, there might be other drivers that should be sectoral and place is appropriate as long as you find a way not to create islands. Coming back to the other issue, it is making sure that you can join things up and encourage people to work together. That would be my hope.

As a result of the place-based focus recently, we have seen some very positive developments. We are now far more strongly engaged across the five universities in the north-east. We are far more engaged with professional organisations or sector organisations like the North East Automotive Alliance, NOF Energy, which is subsea and offshore. We are far more linked in to these kinds of networking associations and working with them as a group of five universities—so not each one of us is knocking on the door—than we were previously. We have seen benefit from some elements of place-based support and positive encouragement, the carrot so to speak, to do that and it has been very beneficial.

Q366 **Chris White:** If I could start with you, Dr Thompson. Going back to this numerous strategies question, do you think it was the case that the Government or all Governments were throwing strategies at yourselves because you weren't changing, the university wasn't changing or the environment wasn't changing and somebody had to do that work?

Dr Thompson: I think there was an element of that in the sense that, as somebody who is at the business-academic interface, for that area of university endeavour, I believe that, for example, the research excellence framework programme has been extremely beneficial. It has stimulated us to think in a more focused way and starting to think about engagement further at the beginning of the researcher's journey. It has stimulated that change in thinking, so it has been very beneficial from that point of view.

Q367 **Chris White:** When the industrial strategy comes out at the beginning of next year, or certainly consultation documents, do you plan to be engaged in that process?

Dr Thompson: I would very much hope so, yes.

Q368 **Chris White:** I know this is early days but do you have a rainbow idea of what this will look like for you, for Durham? What can the university achieve from an industrial strategy? What would you hope for? This is your opportunity to get it right, to help Government get it right.

Dr Thompson: Yes. I would like to see retention of the encouragement to work regionally as anchor institutions in our locality. Our new academic strategy picks that out as a role that we have in the county and the north-east. I would hope that it would encourage us to continue the work that we have developed over the last five years where we have gone from transactional models of engagement to collaborative models of engagement. That has been a massive growth area for us, and that is partly the type of university that Durham is but, for us, that is the model that has been most effective.

We are now engaging with both large commercial and small commercial and third-sector organisations in a far more holistic way. We are cross-populating those relationships. We are entering into consortia and working with those organisations on fundamental research that will be published and, therefore, open to all. There are models by which we can do that where we can still manage confidentiality, IP issues that may emerge later on in the chain. By working together we are able to open up that underpinning fundamental research that is missing for those organisations. That allows them to take it forward and incorporate it into their products and services, whether that is consumer psychology or a functional service for a polymer or antibacterial work on antimicrobials.

Chris White: Dr Thompson, that was a pretty impressive answer for being bounced into a question. Thank you very much. I might come back to you if you can think of any more ideas.

Dr Thompson: I probably can, actually.

Q369 **Chris White:** Yes, I am sure. You can have a three-minute break. Mr Twiddy, you worked at Treasury for 11 years. You sound pretty jaundiced about the—

Edward Twiddy: No, I had a wonderful time. I would recommend it to anybody. It was great.

Chris White: Okay, I thought you sounded a bit jaundiced.

Edward Twiddy: No, I am being absolutely honest.

Chris White: I am going to come to the same place that I came to Dr Thompson, but my question is: how would you advise your former colleagues to be writing speeches for Greg Clark that were about achieving an optimum industrial strategy rather than including phrases, buzzwords and the environment that you were describing in your first answer?

Edward Twiddy: Co-ordination failures are everywhere. They are all the way through the private sector and the public sector and they hamper us in our daily lives outside of work all the time. The state has a fabulous role, whether that is in improving information that flows into partnerships within a particular supply chain or in bringing state-supported actors together so that they only knock on the door once. All of those are absolutely key parts of a policy of engagement.

When it comes to an industrial strategy I would recommend that we identify what the problem is first. I said I don't quite know what the problem is that people are trying to solve, but unless you know what the problem is you can't plot a course.

Q370 **Chris White:** Have you a thought on that?

Edward Twiddy: I pointed to productivity. You can explain quite a lot of the last decade we have just been through, in terms of real wage growth, simply by us not having had the productivity yield that we—as an advanced, engaged international economy—ought to have enjoyed. Over that period, if we think of all of the stupendous advances in the democratisation of data, computing power, transport, and the reduced cost of consumer goods, very little of that has fed through to wages. Wages are the best proxy for productivity where it has exacerbated rather than flattened out regional disparities.

Q371 **Chris White:** Do you want to make a suggestion about why it didn't convert into wages or productivity when we had the advantages that you list?

Edward Twiddy: A lack of investment, public and private, cash-rich companies not investing enough and Governments cutting capital budgets.

Q372 **Chris White:** This is really helpful, but why did the Government not incentivise? Were companies' fingers still a bit burnt after 2008 and they didn't want to take that investment risk?

Edward Twiddy: Yes. In general, companies have become more risk averse and that is the only explanation you can have for cash growing in companies and wages staying stagnant. Wages would increase if people were investing in productive new technologies.

Q373 **Chris White:** You talked about another interesting concept of why you don't think it should be about picking regions and sectors. I totally agree with your view on that but what about your local authority working with your LEP, working with your university to identify? Can you be explicit about what you mean? You don't think the Government should be suggesting this and locally you could create this. Is that what you mean?

Edward Twiddy: Yes. I think you are very much there. Regions and localities should be assisted by central government whose perspective is different and is very valuable, so that people don't chase down every single rabbit hole. But reaching a prognosis regionally and locally about those parts of the economy where, whether it is on the supply side or on the demand side, you are behind and there is a recognisable fix, then it is just a question of deploying your resources and deploying them in such a way that you concentrate on the problem. Again, it is a question of problem identification. I mentioned the lack of equity funding into north-east SMEs. That was a very well identified problem.

Q374 **Chris White:** I am not an economist by any stretch of the imagination. Can you explain again how your paying rent would be turned into equity in the business?

Edward Twiddy: They bought shares. With the rent that we paid the council, they bought shares in the business.

Q375 **Chris White:** Was that hypothecated? Was that a clear transaction? Did you know that was going to happen, or is it like living at home with your mum and dad and you paying them rent and they are really lovely and putting it into a bank account for you?

Edward Twiddy: No, it was clear.

Chris White: You were clear upfront what it was going to do?

Edward Twiddy: It was clear and upfront. It was part of the offer the council made for us to be part of—

Q376 **Chris White:** Who was this?

Edward Twiddy: Durham County Council.

Q377 **Chris White:** Durham County Council. I think they should get a hat tip for being pretty smart.

Edward Twiddy: It is a great example and just another one of the public sector taking risk where private sector wouldn't. No private sector landlord is going to say to an SME—even one that has, by that stage, tens of millions of pounds raised from investors—"We can see that you have to spend all of that". A bank is a big capital intensive business to get off the ground. "We can see you are going to have to allocate all of that into your plan. Why don't we ease your journey for the first year and a half by you paying us the market rent but we will take a risk on you as well." That is a great example of a response from the public sector to a private sector need. It is probably not one that can be repeated in every instance. We were very fortunate to meet with executives and leadership in the council who were willing to look at us and say, "Okay, you have passed through a number of gates. We can see that you have a value here to our community". There aren't enough headquartered UK businesses in the north-east—and least of all in Durham city—so there is a great opportunity for them. We have grown from six of us to 250.

Q378 **Chris White:** Forgive me if I am saying anything wrong or not terribly sensitive, but was this a response to a crisis? Did somebody in the local authority say, "We must do something and we must do stuff like this. We need to be more creative and innovative"?

Edward Twiddy: If you look at real wage growth across the county, Durham was one of five that had a marginal fall in real wages from the stats that came out probably a year ago now in regional GVA. I think Durham was just marginally below zero in real wage growth over that year. It seems like a wholly correct response when faced with a business that says, "I have raised this much here. I have promises for this much and this much and this much. We will employ 250 people in your city. Our average wage is just under £50,000 per annum". That is three and a half times the average wages in parts of this county. The city pays more because of the university and the council and others, but large parts of this county have much lower average wages.

Q379 **Anna Turley:** Focusing on skills, because I think some of that ticks all the issues that we have talked about: productivity, the rebalancing of the economy and the regional geographical point of this. Also, the thing that I think is really at the hub if we are trying to have an industrial strategy that works, in the light of what has happened in the last few months, if you look the Brexit debate and somewhere like Sunderland where people were willing to vote to lose the largest employer in that region, clearly people are feeling that the economy, the industry isn't working for them. For me, skills is probably the biggest way to fulfil the potential and the productivity of our workforce, to connect people to the opportunities that are there in their locality. What role should skills play in an industrial strategy and what potential does that have to change this?

Dr Thompson: It has a very significant role to play when you look at certain areas that have been identified as areas of need within, for example, the SME community. Leadership skills in the SME community, the ability to take the next step, go to the next stage have specifically been identified as areas needing support, those kinds of leadership areas as part of an overall skills strategy. We know that there are certain gaps across the UK where, for demographic reasons—and a concern I think that will be mentioned shortly—we need to make sure we are bringing people through in certain key skills areas. Something that we do in Durham, and again we think is important, is entrepreneurial skills. We are not just teaching people things; we are teaching them what they might do with those sets of skills and competencies and providing opportunities for them to try those out in a safe environment. Those are my comments on that one.

Jane Mee: I am glad you brought up skills because I think it is absolutely fundamental to a successful industrial strategy. Hitachi is a founding member of the South Durham UTC and we also have about 50 apprentices at the factory. We are engaged in a programme of skills transfer from Japan to the workforce here, and in fact the other way. With our service depots, there is potential to export that knowledge back to Japan. We are very clear that the rail industry needs to attract people from a wider range of backgrounds to ensure that it does have the pipeline of a skilled workforce. We hold regular recruitment fairs for women at Newton Aycliffe. We are very conscious that, within our industry, the skills base is quite narrow. One of the things that we would be looking for in an industrial strategy is support to help broaden the skills base in our sector, but that applies equally to other sectors I am sure.

Edward Twiddy: It is everything; it truly is everything. There is no longer an MP up here but there was somebody who once said, "Education, education, education". It cannot be wrong.

Chris White: Whatever happened to him?

Edward Twiddy: Circles come round all by themselves, don't they? I was lucky enough to be with Andy Haldane—

Q380 **Chris White:** How many points did you get in your world for saying that?

Edward Twiddy: It is my only regret that I didn't spend more time in Whitehall working with DfE. I think it is the most important part of Government.

Q381 **Chair:** Can I ask on that point, the new Prime Minister's change of machinery of Government, taking further and higher education out of the Department for Business and now industrial strategy is separate to education policy, is that a negative step or are you just simply moving the deckchairs?

Edward Twiddy: The analogy of a sinking ship isn't one I would go with. I think progression for people from those early joy-filled learning experiences, which is what primary school ought to be delivering, into one of learning about ideas and skills and connecting across disciplines to create something newer and better and taking that all the way through in one Department may well be the right answer. I genuinely don't know about the implications. What I do know is that, as labour markets appear to be set to constrict—and we have relied very heavily on being able to pull labour from across Europe whenever we wanted—we have to invest heavily and we have to take it all the way through lifelong learning. If that needs to be in one Department or two, I don't know.

Chair: Thank you very much. I think that has been very helpful. We are really grateful for our time. Thank you.

Examination of Witnesses

Witnesses: James Ramsbotham, Graham Robb and John Elliott.

Q382 **Chair:** Gentlemen, thank you. Welcome to our Select Committee. We are looking at industrial strategy. May I begin by asking you to identify yourselves and tell us the organisation or the company you are representing, starting with you, John?

John Elliott: I am John Elliott and I am the Chairman of Ebac Ltd. We manufacture in Newton Aycliffe.

Graham Robb: I am Graham Robb. I run an SME myself in PR and advertising but I am also on the board of the new South Tees Development Corporation. I chair the North East Institute of Directors and I am the Vice-Chairman of the Entrepreneurs Forum in the north-east.

James Ramsbotham: I am James Ramsbotham. I am Chief Executive of the North East England Chamber of Commerce and I am also Chairman of the Darlington Building Society.

Q383 **Chair:** Gentlemen, you all are running or have run successful companies. In that regard, do we really need an industrial strategy?

John Elliott: Yes.

Q384 **Chair:** John, I didn't expect you to say that. I thought you would say, "Government, get out of the way and let us entrepreneurs deal with the job". You don't feel like that at all. Tell us why?

John Elliott: It doesn't work.

Q385 **Chair:** What do we need then?

John Elliott: I am assuming the status quo is not good enough. I don't believe we perform well enough in the UK, so we must be prepared to question everything we do now and that seems to be unacceptable. You can't question the status quo and I believe we will never sort it out until we do that. The first thing is to recognise the problem then find a solution. Leaving it to the market has not worked for most people. You did mention before about strategy. In my opinion, strategy is for one thing only, for the population. Government strategy should be for the good of the population—not business, the population. That is the starting point.

Q386 **Chair:** Graham, what is your view?

Graham Robb: I think we do need an industrial strategy. We have one that is emerging. It is multi-faceted. We have one that is expounded by the Secretary of State for Business. We also have one that the Chancellor wrote a foreword on, the Northern Powerhouse strategy. We are starting to see them followed up with strategies at the local LEP level. James and I attended a great event today to launch the Tees Valley strategic economic plan. We do need strategic planning but in business people want to just get on with it. They don't want plans to constrain them in any way. They need to be plans that allow them to be free, allow them to take decisions on investment and training, decisions that give them the opportunity to—

Q387 **Chris White:** What does allowing people to be free mean? Are you thinking there should not be some facilitation in that freedom in terms of intervention?

Graham Robb: Yes. I don't think we should be picking winners but maybe boosting winners and boosting sectors. I disagreed with one of the last evidence givers, one of your last witnesses. The idea of identifying areas of the economy in sector terms will make a difference to specific geographies is what has been going on in Tees Valley. They have picked specific areas, starting with business growth, looking at energy, advanced manufacturing. In the north-east, automotive and health are increasingly sectors that are identified, but the tech sector too. I would not be surprised that you will hear that from a lot of areas of the country but there has been some demonstrable success here in the north-east. The evidence of our business growth in this region has been quite impressive, particularly in the last year or so.

Q388 **Chris White:** What would you attribute that to?

Graham Robb: In terms of business growth, there has been a lot of energy expended by different people in the public sector and business organisations like the Chamber of Commerce, the Institute of Directors and the Entrepreneurs Forum to encourage, nurture, nudge, not necessarily to hand out lots of money. We have seen in the last year a gradual closing of a very wide gap. There were 629 businesses per 10,000 of population in the north-east this time last year. Now there are 679 per 10,000.

Q389 **Chris White:** That is very interesting. You see this year a narrowing of a very wide gap. Did you have a target to achieve by 2016-17 that you would close this gap and then you would start to make progress? Is there such a thing as a document that you could share?

Graham Robb: No, there isn't. It is a vague aspiration from some bodies. To be a member of a body I am involved in, the Entrepreneurs Forum, you have to have run a business for three years and be turning over £250,000 or more. It has been our sole impetus to generate the opportunity for more businesses to grow. We see this gap as one of the main indices of success and it has grown by 50. It has gone from 629 to 679 per 10,000 of population. That represents thousands of new businesses here in the north-east, which by the very virtue of their existence will beget thousands of economic opportunities for people in this region.

Q390 **Chris White:** When you see your IOD colleagues from Birmingham or elsewhere, do they find you really annoying?

Graham Robb: I would hope so, because there is a great success story to talk about in the north-east.

Q391 **Chris White:** Do you think you are doing better than anybody else?

Graham Robb: Yes. It is demonstrably true. The number of businesses per 10,000 population has grown by 7.9% in the north-east of England this year, which is the fastest growth of any region.

Q392 **Chris White:** Are you going to flat-line soon?

Graham Robb: I don't think we are, no. I see that there is an appetite for enterprise here. This plan—which is a plan conjured up in Tees Valley by all five Labour leaders of the local authorities and the private sector—puts business growth as the first objective of its planning.

Q393 **Chair:** James, I asked do we really need an industrial strategy. What do you think?

James Ramsbotham: Absolutely we do, because there are so many things that Government are deciding. Deciding them in the absence of an industrial strategy means that quite often we are making decisions that are not leading to what we really want to do, which is making sure that every single part of this country delivers to its full potential. There is a lot more that we could do.

Q394 **Chair:** I will come on to that perhaps and maybe other colleagues will as well. I want to go back to John who said the status quo is obviously not working.

John Elliott: Not working well enough.

Chair: Yes. There could be areas of improvement but as a whole.

John Elliott: Absolutely right.

Chair: In that regard, I have two linked questions to you, John. What is it that you want an industrial strategy to do, to look like? What is the role of Government in helping to produce that industrial strategy?

John Elliott: The biggest problem we have in the UK is we have a trade deficit. We are living beyond our means. In business terms we are bankrupt. We are surviving by selling assets and borrowing money and it is not sustainable. That is what we should be obsessed about getting rid of. How do we do that? Not by dreaming about what we might want to do with high tech, real things: what are our resources now and how can we add more value? That is it. It is as simple as that. Let's forget about high tech innovation. That is the cherry on the cake. We don't have the cake.

Q395 **Chair:** But we will not be able to sell to the rest of the world unless we are dealing in high tech and innovation, will we? You are a good example. We would have thought that manufacture of washing machines had left these shores for good but they haven't, thanks to you largely. What is it that you have done that is different?

John Elliott: We could make more profit making them in Poland, but I would rather make a smaller profit and make them here because the UK is important to me. That is not me being philanthropic or generous.

Q396 **Chris White:** Would they be as good a quality if you made them in Poland?

John Elliott: No, they wouldn't be. Well, they would be if we made them because we would make sure the quality was right and the design was good. It isn't working, so we have to think the unthinkable and we have to forget about free trade is a good idea, free movement of capital, because those things are manipulated by speculators. Businesses don't like competition. They want to protect themselves. That is a natural thing for big business.

Q397 **Chair:** Do you think that an industrial strategy should have protectionism at its heart?

John Elliott: I think the Government have to intervene. I am sorry for saying this.

Q398 **Chair:** That is slightly different though, isn't it?

John Elliott: Yes. It will not happen if you leave it to the market, because it has not happened. Walks like a duck, quacks like a duck. It is a duck. It is not happening. We have to do something drastically different or we will be doing 5% better. We could be doing twice as well, looking at our resources now, not dreaming about the ones we want to have: what have we got now?

I am going to now say something even more unthinkable. There are people in the UK whose first choice is to do unskilled work, not wanting to be computer experts. It does not make them second class citizens and we need those people to do those things. We need industrial manufacturing to make things that we currently import. We can't compete with China but the cost of buying from China is that we are going to be buying electricity from them in a few years' time at a high price. The Chinese own Heathrow airport. That is the cost of buying from China. We buy something cheap now but the long-term cost is we are going to have no assets left in this country.

Q399 **Chair:** Graham, James, do you agree with John on that?

John Elliott: I hope not.

Graham Robb: I don't agree with a lot of the way John phrases it but I would make this caveat to that. John can demonstrably prove that he is doing something worthwhile for the UK economy. I know John. He has had his first 500 washing machines off the production line in the last month and they have all sold. I don't know his numbers and profit but I have worked out what the prices are.

John Elliott: It is going better than we thought actually.

Graham Robb: He has sold about £2 million. That is £2 million that has not gone out of the country as a result of imports, so there is some merit to that. But I do think that when it comes to trade, we are a trading nation. Here in the north-east we have all the facilities, all the things we need to trade, geographical things that we need to trade, latent skills that we need to make things and a rejuvenated spirit of enterprise. We have a lot of the things we need to conduct free trade once free trade agreements are agreed in future.

James Ramsbotham: In my view, if every country behaved in the way that John would like us to do the whole place would start to go in a gradual downward spiral. It is crucial that we make sure that we maximise the potential of the UK, but I am not quite sure I share John's vision of the way that it should be done, and I think that we need to put a lot of emphasis into moving much more into what will maximise the potential that we have in the new world in a very different way.

Q400 **Chris White:** I would just come back to John's remarks. We are also doing an inquiry on governance at the moment. I don't know whether you have given yourself a bit of a problem in the years ahead, but you have just said you prefer to make less profit by making stuff in the UK—

John Elliott: Not make less profit. We would rather have that position.

Q401 **Chris White:** You would rather continue manufacture in the UK, which is music to our ears. That is—

John Elliott: It is like the UK economy, we are going to disappear, John.

Q402 **Chris White:** In terms of governance, you have already been caveated and challenged by the other two people on the panel for your comments, but do you think you are a—

John Elliott: They agree with the status quo. I don't, and we it is questionable. We have to be prepared to say, "It isn't working" and if it isn't working we have to change it and change is always going to cost. The reason it isn't working is because most people think this is right and it isn't. We are bankrupt but we don't recognise it.

Graham Robb: I don't entirely believe in the status quo, Mr Chairman. I do think that there are things that need to be done.

John Elliott: I have heard this for 40 years and it doesn't work.

Graham Robb: I don't believe entirely in the status quo. There are changes that need to be made and some that are being made: the way we are investing in our transport will help us become more productive; the way in which we are tackling things like the problems we have had in Redcar. I am pleased that the MP for Redcar is a member of your Committee because what has happened in Redcar illustrates some of the problems of structural change that the UK faces. The way in which the community of Tees Valley has tackled Redcar has been pretty innovative, pretty sharp, and different to the way in which this country tackled big industrial change in years gone by, so I don't believe in the status quo. New ideas and new innovations should not just be about how business tackles things but about how Government does too.

Chair: I think it is appropriate at this stage to bring in the Member of Parliament for Redcar.

Q403 **Anna Turley:** Thanks. It sort of links to that point and it goes back to something that John said right at the beginning that really resonated with me when he said, "What is the whole purpose of an industrial strategy? What is the whole purpose of the British economy? It should be for the good of the population". For me, that really strikes at the heart. When we look at what has happened over the last year, in the US and in the UK, you are seeing populations who feel that globalisation and the nature of the economy in this country isn't working for them. Okay, that would be my personal view on what an industrial strategy should look like. If I set that goal, do you think that is something that in the north-east that the Government could do realistically? Do we have the potential in the UK to have an industrial strategy that does that? What conditions and factors would it need to create an industrial strategy that people felt benefited them locally, so it wasn't a company coming in and people are just looking through the fence as it recruits people either from overseas or highly skilled people from around the country, but a company that sits in

Redcar, sits in Durham, is actually giving jobs and opportunities to local people? Shall I start with James and go around that way?

James Ramsbotham: Yes. We need to change the whole dynamic of the way that we do it and, because we do not have an industrial strategy, we have no long-term goals of what we want to pitch for, and, therefore, there is no sense of ambition of where we need to get to. I am afraid that too much of what has happened in the past has been about emphasising what is wrong with somewhere, rather than emphasising what its potential is. It is only when you emphasise its potential that you start to build aspirations and help people see that there is a better future that they can start to move towards.

We need to completely change that dynamic. That is why a longer term strategy is key because you cannot have that without understanding what the goals are, where you want to get to and then communicating it and just lifting people's focus and giving them hope for where it is. There is so much that this region has the potential to deliver, which is fundamentally being stifled at the moment because instead we are trying to deal with today's perceived issues rather than actually deliver tomorrow's exciting future.

Graham Robb: Yes, I definitely subscribe to some of that but, if we are to have an industrial strategy, it has to a bit more multi-faceted and not just a piece of paper written by one Cabinet Minister. There are many Departments of Government that are economic Departments. Education is an economic Department. Transport is an economic Department. The Brexit Department is an economic Department. Our industrial strategy should be multi-Department, multi-faceted.

There are wonderful opportunities in the north of England. The Northern Powerhouse approach signals what the north of England can contribute to the UK economy. This idea that we can close the productivity gap: if we close the productivity gap between the north and south in the UK economy it will be liberating about £150 billion to our GDP. If you look at what the north has, the north of England if it was the Northern Powerhouse of a country in Europe would be the eighth largest economy. There are significant opportunities. It just needs to join up.

I have seen some evidence. The Department for International Trade has some very talented officials that are now co-ordinating trade visits, and I know James has been involved in these as well because the Chamber of Commerce is heavily connected with the export drive. These are sector based and they go to somewhere, like China, and they will talk about the Northern Powerhouse and they will discuss it in the context of its population, which is millions and millions but, compared to China's population, it has to be put together so that it is equal and the way it is marketed is very important.

One other thing that I know the IoD is keen on when it comes to technology, productivity and strategy, is to have a bit more ambition from Government on things like broadband speeds and things that Government can necessarily nudge along, whether delivered by BT, Openreach or other companies. We have 10 megabytes as a target broadband speed across the country. IoD believes that should be 10 gigabytes in the next 15 years or so, because that is going to be at the heart of enabling entrepreneurs to do business. We have politicians talking about driverless cars, robots and so on, which are all very exciting and very consumable for our mass media, but we need the structures to enable them to happen.

Chris White: It is not just us, by the way. It is JLR and Google and all the other—

Graham Robb: No. In setting the regulation and the framework to enable these things to come about, as important as HS2 to IoD members is the ability to have reliable, fast upload and download broadband speeds and HS2 and other projects have to fit in. Sometimes the smart approach is to do the small doable things but do them quickly.

Q404 **Chris White:** Sorry, can I just come back in? You were talking about a Victorian era where the sewage systems for the Thames were made so they could take capacity for the next 50 or 100 years. If you are talking about broadband capacity, a step change of speed, those things need to everybody factored in now.

Graham Robb: Exactly.

Chris White: If you are talking about small, discreet improvements, how would you address the need for broadband speeds to have an order of magnitude of—

Graham Robb: Many hundreds is the order of magnitude that is needed. That must be about how the licences are set. How the Government regulates it. Ofcom is regulating BT/Openreach. We have seen a bit of toing and froing over the last couple of weeks about who is responsible for what, but it would be good for the Government to raise the targets for these companies and make sure that they use the regulatory framework they can put across to nudge and engineer it to happen.

Q405 **Chris White:** It needs to be more ambitious, does it?

Graham Robb: Yes, absolutely.

Chair: Anna, you wanted to finish the question.

Q406 **Anna Turley:** I want to hear from John who—

John Elliott: I cannot remember the question now. You see a good example is I would rather have food on the table than more e-mails. We have to get our priorities right. We are going bankrupt. We have to face up to that. We are consuming more than we produce. We don’t feel it because the bankers print money and do other silly things.

I buy these goods because in Bangladesh the guy gets $1 a week, yes, so I am saving money, aren't I? Then I pay out of this pocket through benefits the man that would have made it, so I am not saving anything at all and I have an import. We have to look at the country like a company. We have to look at our resources and use them the best we can to get the most value from them. It will not happen if we leave it to the market. It has not happened and it will not happen, and not only is that stupid financially it is immoral as well.

Q407 **Anna Turley:** The original point I was making was about: how do we make an industrial strategy that benefits people who have perhaps been excluded from the last 30 years of industrial decline?

John Elliott: Unskilled people in the UK, their preference is to do unskilled work and we need them to do it. The things that we consume have gone up on an industrial scale. We have to use the clever people to get multiplication by designing good things or organising production, so that the people whose preference is to do unskilled work can do it. It seems like a dirty word that I am saying that; I am condemning people to. It is their choice.

Q408 **Anna Turley:** Looking ahead—we talk about automation—my worry is that a huge amount of what we would now call perhaps unskilled work is going to be wiped out by automation.

John Elliott: That is good because that makes the economy stronger. We have to look at the economy like a business. We have to look at our resources and how we maximise it. We have to have choice and competition. I am absolutely in favour of that.

Q409 **Anna Turley:** Does it come back to skills then, and actual academy—

John Elliott: No. You see, behind this hiring game, I was the chairman of an enterprise agency 40 years ago. I brought all these things about what we were going to do: we are going to have more education. Let's look at realism. What are we really—

Graham Robb: Surely there is room for both, with respect.

John Elliott: No. You have to decide it isn't working. We need dramatic change.

Chair: Let Graham respond.

John Elliott: I did not interrupt him actually.

Chris Wright: Come on be fair, and he is a politician so you have to be careful.

Chair: Let him respond.

Graham Robb: There should be room for both because the guy in Bangladesh will also get fast broadband in due course, and may leap over us when it comes to technological skills.

John Elliott: I think it needs more than skills, Graham.

Graham Robb: Yes, maybe so. If we are going to have a robot economy then we also want to make the robots. There are companies in the north-east that will make the robots, design the programmes but physically make the boxes the robots go into. I have seen that happening.

John Elliott: If we can do that we should all benefit. If we can automate things and work less we should all benefit. If there is unemployment we should all share it.

James Ramsbotham: There are several bits of that, too—just picking up the skills piece—and you mention, Chris, the Victorian piece. I do think in today's age a curriculum that doesn't include computing as a fundamental subject is not building us for the future. As part of this, there has to be a real focus on how much vocational skills we need. How much of the skills for tomorrow we need. A lot of it is—

Q410 **Chris White:** Should we be studying Mandarin before we study computing?

James Ramsbotham: Of all the languages that our young people need more than anything else, coding is the first and then foreign languages come second. There is then a multiple choice of modern languages. I would never push for one because we need to be a global nation and we need to give it choice to trade with as many as possible, but coding is absolutely key.

The other bit is about understanding our place, and place was a bit of your previous one. This is not about having a country that is totally governed by the state but just a far better understanding of place. Here we are in the north-east of England with seven ports facing into Europe. It is not surprising that 60% of our trade does go into Europe, and it is not surprising that someone like Nissan succeeds so much because, if you are exporting 85% of what you make, and it is a car and it is going to have to go by sea and you are beside a port that faces into your main market, there are huge advantages. That is why Hitachi came here and how, at the time that Hitachi was coming here, the Government was allowing them to look at one location, which did not even have a railway line anywhere near it when you are making trains. It just shows a complete failure to understand some of the things.

There are debates at the moment as to what we have put into Liverpool, where all the shipping companies will tell you that, unless they going to America, they don't want to touch that side of the country. It is also things like energy and water. We are a region that has a surplus of those, and just because we can transmit it round the country it does not mean that it is sensible to do it because we waste up to 10% by doing it. We should try to make sure that, as a nation, we make much better use of our natural resources and we use them to where the natural resources are rather than constantly trying to transport them because in the world ahead that will be less and less effective.

An example I gave about maximising the resources, which we were touching upon a little bit before and something else is that, one of the examples I use in the DfT is a very simple map of airports. If you ask anyone in any Department of Government to give you a map of this country and our airports, we produce one with circles on the map for every airport and the one for Heathrow is the largest and then they get progressively smaller. That is a historic map because that is telling you how many people went through the airport last year, and we actually need to look to the future. The one in the future is how much more traffic you could put through each of those facilities without needing to further invest in that facility, and suddenly Heathrow is minute and all the London airports are minute and all the other airports are bigger, so your past step map does not tell you where you should be investing in for the future.

I mention all of those as examples of the way that we need to completely change our thinking. It is not about then governing by the state, but having strategies that build on those to make sure that we really deliver for the people in every single part of this country who are fundamentally not being maximised at the moment by the way that we make decisions.

Q411 **Anna Turley:** Could I just come back on this: would you recommend then that every area does what Tees Valley have done today, do their industrial strategy, send that up to Government, or do you want Government to have a different approach, look at sectors and so on? If you were advising Greg Clark?

James Ramsbotham: Different things need to be done at different spatial levels, and what far too often we have tried to do is just push everything into one and think that the answer is that. Devolution is absolutely key to this because certain things have to be done at a national level. Certain things have to be done at a supra-regional level, some at a regional level and some at a local level, and what we need to do is to be absolutely clear as to what the different things are that we need to do at those levels.

Anna, from your perspective, take the steel industry. The steel industry, if we had had an industrial strategy we would never have ever allowed the very best and most productive steel plant in Europe to go, but we did not have a strategy on that and it would have been a national strategy that said, "Steel is fundamental to this country. Where do we have the assets and how do we make sure that we protect them?" Then it would have become part of a Tees Valley strategy of how we actually resource it, but it would have been a national decision.

There isn't one answer. It has to start by saying, "What is the national picture and what things need deciding at what level, and then let's work our way down". That way everybody doesn't get told what they have to do. They get told what their part of the overall plan is, and then they make their part of that plan and everybody is involved.

Q412 **Chair:** If can just push on that to all of you, starting with James, in terms of: when you talk about industrial strategy people talk about picking winners. In respect of where do we need to focus our attention and investment? Is it we pick individual companies? Nissan and the north-east is a good example. We do not want to lose that fantastic economic footprint, and what the Government did was commendable in respect of keeping Nissan and making sure that the two models are being built here. Is it about picking sectors? It could be about automotive. It could be about aerospace, life sciences. Government together with industry picks those winning sectors. I was interested in what you were saying, James. Is it more mission-centred, picking challenges to address? You mentioned the long-term goals as to what we want to pitch for. Is it more about that? Is that what an industrial strategy has to do, rather than, "We are going to try to be strong in making cars"?

James Ramsbotham: Personally I believe it has to be an enabling strategy, and so what it does is it lays out some very, very clear thoughts about which parts of the country are better suited to certain things, not by sector. I am talking much, much broader than that. This is about in the north-east we have so much capacity to make more energy, so energy intensive businesses should be put to where the energy is being generated; no more specific than that, energy intensive.

We need to build the infrastructure to make it happen. For example, we were talking about broadband earlier. When broadband first came out, no one had any idea what it was going to enable. No one could foresee the way that social media has transformed so much and, indeed, the way that internet trading has happened. But you produce the tools and then you release people to deliver it. Government has to focus on the big things, which individuals and companies cannot do and then let individuals and companies get on and do it. Individuals are not going to produce the infrastructure requirements of maximise the natural resources of this country or, indeed, its geographic location advantages. The industrial strategy needs to release those.

Also, at the same time, it then needs to decide which sectors are really strategic. Energy is absolutely strategic. I would have argued steel was strategic. There are certain sectors that are strategic, but there is a huge danger in then picking the winners and saying, "We are going to say it is Nissan" because there will be failures and, at a certain level, you have to allow people the freedom but you have to provide the enablers to make it happen.

Q413 **Chair:** Do you agree with that, Graham?

Graham Robb: I agree with quite a bit of that and I was talking about the sector visits in exporting that the Department for International Trade has coming up in the new year. There is a sector visit on renewals. There is a sector visit on health. There is a sector visit on digital and creative from the Northern Powerhouse areas, and they are going to different countries: UAE, Korea, India and so on. So I do think there is a role for sector-specific.

I also think that there is a role for the specific disciplines of Government to attach themselves to the Government's own urging on on productivity. I will give you an example. Take education. My own small business has recently hired a young woman who got a first in business studies from a local university. She is very bright. I am really pleased I have her in the business. She said to me, "Graham, I could have done that degree in two years but I have done it in three years and been saddled with the equivalent of three years of fees". I said, "That is very interesting, Laura. Why don't we ask your cohort if they felt the same?" so she goes on to Facebook and she asks 60 of her friends who went through the same course if they thought they would want to do it in two years. A huge chunk of them did, representing—if you hypothecated it through the university system—thousands and thousands of young people who would choose to do that kind of degree quicker.

But that represents the need for the university establishment to address productivity and to address how it delivers the education. Clearly, if it is not business studies—it might for argument's sake training to be a doctor, you could not squeeze training a doctor into two years—you have to be smart about it. This is the kind of economic gain because if I could have had Laura in my business a year ago that would have been great, bringing her forward sooner and letting her get into the workforce quicker. The sooner we allow or encourage sectors of the economy that aren't, strictly speaking, enterprising private sector businesses—although universities would argue they are—to change their approach and push productivity right the way through the economy, the better.

Q414 **Chair:** John, picking winners did not work in the 1970s and we lost a lot of British manufacturing. Should we try to pick winners now?

John Elliott: We have to get better at it.

Q415 **Chair:** How do we do that?

John Elliott: You have to identify the resources we have now, not the ones we would like to have. How do we use that resource to add the most value in the most useful way? That is a starting point. Don't leave it to the market. It hasn't worked. A lot of people got very rich but it hasn't worked.

Chair: Thank you very much, gentlemen. We really enjoyed that. Thanks for your time.

Examination of Witnesses

Witnesses: Nigel Foster, Councillor Iain Malcolm, Andrew Lewis and Anna Round.

Q416 **Chair:** Thank you. Welcome to this Select Committee. We are looking at industrial strategy. For the purposes of the record, could you tell us who you are in the organisation that you are representing, starting with you, if I may, Nigel?

Nigel Foster: Yes. Nigel Foster, Transport for the North, Director of Strategy.

Councillor Malcolm: My name is Iain Malcolm. I am the leader of South Tyneside Council but representing the North East Combined Authority.

Andrew Lewis: Hello, Andrew Lewis. I am Managing Director of the Tees Valley Combined Authority and LEP.

Anna Round: Anna Round. I am a Senior Research Fellow at IPPR North.

Q417 **Chair:** May I begin with a question to you all? What do you think of the Northern Powerhouse? Is that our industrial strategy for the north of England? Nigel?

Nigel Foster: The Northern Powerhouse was an important aspect of the Government's policy in the past. It is a cohesive area. We heard from the previous witnesses that the Northern Powerhouse constitutes an area of significant economic importance to the country, 60 million people. It is very large in terms of its output, very diverse and contains a number of important industries and sectors for the—

Q418 **Chair:** Would it tick the box from your perspective as an industrial strategy?

Nigel Foster: I don't think it is an industrial strategy as the Northern Powerhouse. I think it is a term to coalesce a certain number of activities around. From our point of view, transport; transport for the north: we are trying to deliver pan-northern transport interventions. That will make a significant difference to economic productivity and create new labour markets that are not there at the moment.

Councillor Malcolm: I think it is an interesting policy initiative from George Osborne and his colleagues, but the current Prime Minister, I think, has accepted that unless it is backed up with strong action through an industrial strategy, and with proper financial resource, then it will not be a powerhouse. It will be a northern poorhouse. It is an interesting concept, but the real proof of Government determination to rebalance the economy is in how much resource and how much commitment it is prepared to give to areas outside the south-east and the capital city.

Andrew Lewis: The emphasis on the economic development of the north of England is important. Whether that is described as the Northern Powerhouse or anything else, it transcends any single initiative. There are huge economics from economic growth in the north of England, which have not always been recognised by national Government, and the fact that there is a focus on that is important. To me the thing that has been most exciting about the concept is not so much how it is designated in government but the response from the north itself, through initiatives like Nigel's, to take some responsibility and control of how we determine our own economic future in the north of England, so I think that in itself is the strongest element of it.

Is it an industrial strategy? No, I don't think it is. It is an idea and an encouragement to work together. As Iain says, it has not yet come to fruition in terms of a concentrated effort by Government but it is a helpful start and something that we are embracing and helping to make work.

Anna Round: I would agree with all of that. It is a good idea but it is in its infancy and in itself it is not an industrial strategy. It needs the investment that is strategic planning the institutions.

Q419 **Chair:** Anna, can I stick with you? Gentlemen, you might want to comment on what Anna has to say. I liked the IPPR North's recent report on industrial strategy, and it said, "The Government needs to focus in an industrial strategy on certain matters, whether it is quality of work, raising productivity, making sure that you are dealing with regional growth and a transition to a decarbonised economy". Is that how you think an industrial strategy should work? We were talking before about picking winners. Is it picking individual companies, individual sectors or is it more about a challenge in terms of addressing that? Do you think an industrial strategy has to be mission-based in that regard?

Anna Round: I think so, yes. That is one of the ways for a start that it will remain current. It is also one of the ways in which it can work with the move towards devolution, so that you have different places that can contribute to meeting those challenges in different ways.

Q420 **Chair:** Talk us through how you think a mission-based industrial strategy could work.

Anna Round: One of the things moving forward is that we have a lot of things in the way that industry works, where we sit in it within a global economy, how regions will work together, so we meet major challenges such as making growth inclusive and decarbonisation, which, effectively, we are going to be shooting at a moving target over the next few years.

Those will affect us at a national level and will be articulated by central government. Equally, places within a country, are going to have different contributions to that, so there is an argument for local areas under devolved governance.

Q421 **Chair:** If we are shooting at a moving target, how do we measure and evaluate success? One of the criticisms that we had as a Select Committee on the Government's productivity plan is there were no real metrics. You could not judge whether something was working or not, so in that regard what should the metrics of an industrial strategy be?

Anna Round: There is an argument for broadening the metrics and also for looking at that as something that is dynamic, so not having a single fixed set of metrics. We published last year—in the "The state of the North" report—a set of tests for the Northern Powerhouse, rather than conventional metrics that look at things like changes in narrowing the productivity gap but also changes in social outcomes and changes across the region. Looking at what sorts of metric match with those goals, and match with those goals in quite a fast changing environment is very important.

Q422 **Chair:** Andrew, you just launched the industrial strategy for the Tees Valley and it has a measurable output: 25,000 extra jobs, what have you. Those are essentially ways in which you can evaluate success. Should a national industrial strategy have something similar?

Andrew Lewis: Absolutely. Any strategy needs to have a clear set of actions and resources associated with those actions, and it needs to be accompanied by very clear measures of success. Any economic strategy has to be alive to the risk that you are blown off course by events. Of course, any metrics that were determined before the recession would have been substantially out of date, so they have to be applied in a thoughtful manner. Certainly, a strategy that is just warm words and rhetoric, but isn't associated with actions and resources and measures of success is a pretty vacuous thing.

You have already used the phrase, Chairman, "picking winners", which maybe as a Select Committee you might consider banning from future discussion about industrial strategy.

Chair: It will be the map of our report.

Andrew Lewis: I think it is in danger of caricaturing the debate. I would hope we are in a much more sophisticated position than the question: do we pick winners or not?

Q423 **Chair:** Could I just challenge you on that, Andrew, if I may?

Andrew Lewis: Yes

Chair: Because presumably, with finite resources, Government working in collaboration with industry does have to target, and it is: what is that framework and what are the criteria for selection? Government picks winners every single day in their activities in terms of providing grants or what have you. Is that not a case of: should we have that in a strategic way? Picking winners is still relevant, isn't it?

Andrew Lewis: The phrase "picking winners" has often been applied to questions of industrial subsidies for specific firms, and the caricature is that the Government has to decide which firms are going to win and which firms lose, and they are going to have to back some and not the others. Of course, the experience is that if the Government tries to do that they get it wrong.

That caricature has then created a reason for people to oppose the very concept of a strategic approach to government activity in the economy. I think that is what has been dangerous and I think that is what the Government are genuinely trying to counter now in bringing forward this concept again of an industrial strategy.

Governments and the public sector more generally, at local level as well as national level, make choices all the time but they make choices about they can improve their underlying economy and address meaningful economic challenges. They do not make choices to select one company in preference to another, on the basis that: we think it is a winner. That is not a fair characterisation of the choices that are made every day by authorities like mine and by national Government.

Q424 **Chair:** Nigel, Iain, anything to add?

Councillor Malcolm: The problem with picking winners is that you could be looking at sexy sectors, nanotechnology, emerging sort of innovation and so forth, and that is a long-term strategy. It does not address unemployment now. It does not address issues that business or industry might have now, in terms of accessing grants from the banks or getting support from regional agencies to bridge the skills gap, invest in new plant machinery and so forth. It is trying to strike a balance between making sure our country is fit for purpose going forward and that we take advantage of the new technologies that are out there.

Also I think the industrial strategy, as mentioned by the Secretary of State—I think it was at the CBI or it might have been the Institute of Directors—where he turned round and said we have to recognise that businesses that need investment now should be getting investment as well. We have to start manufacturing things again in this country, not just for our own purpose but also to export things.

Q425 **Chair:** Is that what the industrial strategy is? Is that now shorthand for: we need to make things; we need to rebalance and emphasise manufacturing? Given that we are a service based economy, should an industrial strategy also deal with things like services, professional service firms, the creative industries? A modern British industrial strategy has to address those as well, doesn't it?

Councillor Malcolm: It has to, and of course the good news for the north-east region, Chair, is that employment is up. The number of start-ups is up. The number of entrepreneurs who are realising wealth from their investment is up. The downside of all of that is that it has been principally part-time work and low skill that has benefited from that, women and older people, who are going back into the workplace because they are part of the jammed economy and they need to get some additional income and so forth. What we are still not getting in the north-east region—and business and industry tell me this—is what is important in terms of bridging the skills gap. We are still not putting enough emphasis or investigative into skills in this region, and they are not getting real proper access to funding to help them expand and to help them sell their goods to the wider market.

We don't have anywhere near the resources in this region that we used to have in the former one, One North-East, the Regional Development Agency. They have over £250 million per year to support industry and business in the private sector to grow in this region. The local enterprise partnerships have nowhere near that type of financial resource, and until we start rebalancing the financial support that is given to the regions like the north-east then a national industrial strategy will simply not succeed.

Q426 **Chris White:** Thank you. My questions are to Councillor Iain Malcolm and Andrew Lewis, on the back of Councillor Malcolm talking about the sexy industries, the nanotechnologies. Some of the quotes that the Combined Authority have given to us that "Any new industrial strategy must not promote protectionism, rather it should be about equipping UK-based industrial clusters and supply chains with the power to compete nationally. Government should provide a clear foresight function as to emerging opportunities, and rather than propping up traditional industries it should prioritise the creation of a supportive investment framework for strategic industries". My question to the two of you is: you have used the words "the Northern Powerhouse", "northern poorhouse" and those things. You finished by saying, "Business is telling me we don't have this. We don't have that". Can you tell me how you see your position as a combined authority to bring in investment, make a case and have a vision? Who is leading that? Is that you as the managing director or is that you as a political representative? It is coming to the end of our day and I have had so much positivity from a region that I am not at all familiar with. The people that they may be relying on at the final end of the supply chain think we are all going to hell in a handcart. How is that not the case? Tell me something positive. How can we build it up?

Councillor Malcolm: Let me tell you the positives. The positives are that in this region we have a business community that is very ambitious, very passionate about the north—notwithstanding one or two individuals, Chair—they care very passionately about their workforce and the wellbeing of this region, and are more likely on a Friday afternoon to be worrying about how they are going to be getting additional financial support for their business, rather than being on the golf course.

We have a very strong partnership between the public and the private sector, but what really frustrates me—as a council leader but also as a member of the board of the local enterprise partnership—is the number of businesses who are coming forward for financial support to expand their business. We have entrepreneurs who are coming with innovative ideas saying, "We need funding to get new buildings and to train our workforce" and so on, and we have to put them in order of priority and then send the schemes to Government for the Local Growth Fund and say how much we can get as a consequence. It is really frustrating when there is so much energy in this region and so many good entrepreneurs who want to make a difference, and we simply do not have the financial support to give them.

When we do do it we do it very well. You only have to go to the A19 industrial corridor to see an example of that in terms of Vantec who received financial support from the local enterprise partnership. They paid back that loan well before they had to and we were able to reinvest that money in other areas and for other businesses to expand. It is so frustrating when you see Crossrail, for example, getting £15 billion or you see us spending £10 billion on the Olympics and our local enterprise partnership has so much energy and so much business drive in this region, and we simply cannot give them the financial support that they want to either get the employment skills that they need or, indeed, to help them with their start-up grants and so forth.

Q427 **Chris White:** What you are saying is very helpful. How much of these requests are you turning down? Do you think they are genuine, competitive, sustainable business models? Do you see clusters forming in terms of that, so nanotechnology, printed electronics that we were seeing earlier? Are there more things like that coming up or is it just a broad—

Councillor Malcolm: We do have clusters in the region. We have the automotive cluster and others. We want to develop one of the big growth sectors in our region, the digital economy. We want to spend more resource on that and encourage more resource but we simply, literally, do not have it. It is quite shocking that the regions now do not have access, Chair, to growth funds that we had previously. I think the growth funds were stopped in 2015, and yet just up the road in Scotland they are able to incentivise businesses to locate in Scotland because of the support that the Parliament gives them. They are able to do it in Wales because of the support that the Welsh Assembly give them. But the regions do not have access to growth funds to incentivise businesses across the globe to look to the north to locate their businesses in future, and that needs to be addressed as part of the inquiry.

Q428 **Chair:** I don’t want to put words into your mouth, Iain, but it is a case of if we are to have a proper industrial strategy and it is going to be granular in its approach, including regions and local enterprise partnerships, they really need to be backed up with resources and at the moment—as I said, I don’t want to put words into your mouth—LEPs are starved of resources. Is that a fair comment?

Andrew Lewis: I would certainly agree with that. It is frustrating that there are so many great opportunities and so many good uses of public resource, working alongside the private sector at local level, in all parts of the country. Local enterprise partnerships across the country are putting forward proposals, a tiny fraction of which can be supported because of the scale of resource that is available for local economic development. Because of the devolution deal, Tees Valley have done reasonably well out of that process, but the opportunities vastly outweigh the resources we have at our disposal.

If I might just come back because you asked about inward investment and specific examples, part of our response to that is we have to work through other mechanisms. One very good recent example just this week was we had an announcement of an inward investment decision made by an Australian company. It happens to be in Ms Turley's constituency but please treat that as a coincidence in this case. We won a global competition, we think, between 25 and 40 different locations around the world for a refinery for Rare Earth Minerals. As a team we have been working on that for three years.

As Iain said, we are simply not in a position to find resources to fund that sort of location, so you have to make best use of the assets you have. It is a really good example of an industrial strategy working at local level, that we can use things like the connection to sustainable energy sources on Teesside, and that we can use the skills of the local labour force. We can help an inward investor to access skills from local further education colleges. We can provide land and we can demonstrate logistics. We have the benefit of a deepwater port. We bring all these things to the table. We provide solutions for that investor, not through directly funding their location but by making a compelling case that keeps their costs low and means they can choose us against other locations around the world.

That was a good example of where local initiative, given flexibility and freedom and the room to manoeuvre at local level, can deliver really good outcomes—

Q429 **Chris White:** You have had that success. It has taken you a long time to get that. It is not always your side of the fence that is slowing things down. It is sometimes the inward investor that is taking a long time. Do you think you have learnt through that process how to do things better, for want of a word?

Andrew Lewis: We have the particular feature of the Tees Valley economy—it is quite distinctive—which is the nature of the inward investment inquiries we get tend to be large scale and long term. Sirius Minerals is another example, the mine in North Yorkshire. That has 100 years' supply of polyhalite that is being mined there. You don't make a commitment of that scale—a £1 billion investment—for a 100-year supply without some degree of certainty and commitment, both locally in terms of good planning environment, conducive local labour market, and also a supportive national Government framework to give sight of the long term—

Q430 **Chair:** Can I push you on that, Andrew? Forgive me, Chris, because this is an important point I think from an industrial strategy. Do you think there is proper and effective join up between national Government and what you are doing on the LEP on the combined authority? If there is a potential investor from somewhere around the world saying, "I want to invest into the process industries. I think the UK is a good springboard to do that", is national Government sufficiently savvy to say, "Well, you want to go to the north-east, in particular the Tees Valley, because that is where the infrastructure, the skills and the cluster is"? Are you happy that there is sufficient co-ordination?

Andrew Lewis: It is very patchy and it is dependent on relationships. It is also very much subject to short-termism by central government—and what is another feature I think of the theme of some of your discussions earlier—a lack of joined-up-ness between Government Departments. All of those militate against a strong relationship between the local area and national Government, including the resource issues we have already discussed. When it works it works very well.

As a region, although we are pushing forward with devolution we are not doing that as an island. We have very strong relationships within the north of England and we recognise the nature of the Tees Valley economy means that we need a strong relationship with Government. Many of the things that matter to our local area are of huge national and, indeed, international significance and we cannot operate as an island. We need a conducive and positive relationship with central government. That needs to be joined up and long term, and I would really stress the long term nature of that relationship. One of the things that bedevilled industrial policy in the UK has been short-termism, both in terms of limited resources and consistency of policy.

Q431 **Chris White:** Who has the relationship with central government? Is it the LEP is it the combined authority? Is it the Teesside Council?

Andrew Lewis: In our case we are both the combined authority and the local enterprise partnership. We united those structures under a single institution—

Chris White: Is that right?

Andrew Lewis: —a single constitution, resource.

Q432 **Chris White:** Who said you should do that? Is it something you worked out? How many LEPs does that contain?

Andrew Lewis: There is only one LEP in our area and there are five—

Chris White: It is coterminous?

Andrew Lewis: Yes, absolutely.

Councillor Malcolm: It is important to emphasise to the member that there are two LEPs in the north-east region. We have the north-east LEP of seven local authorities and then the Tees Valley LEP of five local authorities, so you have two.

Nigel Foster: Can I—

Chair: Yes, and then I want to bring Anna in because I think Anna wants to talk about the local and national dimension.

Nigel Foster: I want to add a point to that because I worked with Sirius Minerals and Scarborough Borough Council on that particular project. That was a great example of local authorities in the region working together in order to deliver the right bits in the right places, so the mine was always going to be in Scarborough because that is probably the best place in the geology to get down to the polyhalite layer. But the best place to process it was Teesport. They came up with a solution that brought it to Teesport and did the processing and the shipping from Teesport because that is the right place to do that.

Anna Turley: I am trying not to feel too smug about all these brilliant new investments coming into my constituency.

Chris White: I think it is because of the quality of the new MP for Redcar, Chair. Could you just put that on the record?

Q433 **Anna Turley:** Absolutely not, no. I am not claiming a moment's credit. I do want to go back to this thing about the relationship between central and local government, though. Without putting words into your mouth—I am not the one giving evidence—I have had a number of different witnesses say to me that central government, Civil Service, just don't get our assets and our strengths. When some of them are responsible internationally for going out and selling the UK, they are saying, "Oh, our priority is the financial sector. Our priority is the service sector". Are you confident—I am not sure who the bodies are that might go out and do this—and do you believe that the people we have going out there selling UK Plc are selling the north-east, selling Teesside and they are selling the kind of industries that we have here?

Andrew Lewis: I think Anna is itching to come in on this but, just briefly, again, it is patchy and it depends on relationships. What was UKTI and is now the Department for International Trade had what they called a UK-first policy. They say there their sole aim is to secure investment for the UK and they are completely blind about where in the UK it goes. They are a national agency with an international focus, and we do need them as a very active partner, but they are not particularly familiar with the north-east and I think it is fair to say often they don't have the substance behind them to be able to describe the assets within the UK.

There has often been quite a significant gap between the role of UKTI—the Department for International Trade—nationally, and then the efforts of local organisations, like my own, who are trying to make it possible to land investment propositions in a particular local area. There is too much of a gap there. There is too little understanding at national level of the assets of local areas. I suspect, without necessarily having the evidence to present to you, that there is, therefore, a bias in the system against the north of England because people sell what they are familiar with.

Anna Round: It is one the areas where there is a need for pan-northern working, so working under this great example of local authorities working together quite locally. There are also examples where different parts of a much wider north could work together, and at the moment we don't have that level of working. There are great things going on where there is a LEP and a combined authority bringing groups together, but there is a lack of institutions and, therefore, a lot of very busy people without a level where wider coming together, wider pooling of strengths will naturally happen, and also where that gets institutionally listened to. That is really important.

Councillor Malcolm: We don't have a Government office anymore in the north-east, like the old Government offices in the old DTI where civil servants were based in our region and understood it, were staffed by people from our region, understood the region and were able to provide that interface with Whitehall and civil servants. It is not surprising that if you don't have that interaction with civil servants and with Ministers, then, as Andrew says, there will be a certain bias and so forth. I cannot tell you the names of any civil servants who deal with our region, let alone have any appreciation of whether they have come to our region to talk to businesses and to talk to us about our long-term strategy.

Nigel Foster: There is an important point here. I am a former President of the Chamber of Commerce in western North Yorkshire. I think Andrew makes a very strong point here. Clearly, we are trying to bring jobs and investment to the UK. That is one of our primary concerns, but if we are trying to then decide which is the best location for that business and trying to help them, that business will have a certain number of factors that it is trying to satisfy.

You have heard some of the passion today but certainly there is substance to it, and this is the point that I think we have been talking about: where is the best place for that business to locate? Where will it deliver the best returns for it as a business and, therefore, perhaps invest even further in the UK? I don't think nationally we can do that. I don't think we can answer those questions. It is the local teams that are going to have the level of substance and detail that will inform that business in the right way.

Q434 **Anna Turley:** Thank you. While I have the conch, I want to ask about the question I have mentioned a couple of times this afternoon, around people and the impacts for local areas and connecting industry or strategy to the people that we want to benefit. Representing an area with high unemployment, high levels of social deprivation, if we are going to have an industrial strategy an area like mine, if we are going to get foreign direct investment, if we are going to have new businesses, how is that going to benefit areas where people have seen 30 years of industrial decline, have become potentially further and further from the employment market? What does that kind of industrial strategy look like and what is the role of Government to try to bridge that gap? Anna, shall I start with you?

Anna Round: Yes. One of the things that we have talked about—manufacturing and services—is that part of the productivity problem in the UK is that we have a lot of people employed in relatively low wage, low skill service sectors, which have had an impact on the National Living Wage. The response to that has tended not to be to move towards higher productivity or actions that would boost productivity, but instead towards things like cutting overtime and cutting costs. That is an opportunity that can be fostered strategically and in terms of industrial strategy, and also locally in quite useful ways, because the precise natures of those problems can be added. That is about innovation, looking at adopting existing technologies that make those sectors far more productive than in other countries, so things around training, around adopting ICT.

That last point is quite interesting because it is about locally where you have a particular challenge linking sectors, which are not necessarily automatically linked in people's minds. To me a particular challenge to come back to: how does a challenge-based industrial strategy work? That would be bringing the high tech, high skilled digital together with low wage, low skilled sectors, which are part of the productivity problem but are also part of the lack of advancement in work, lack of upskill and lack of opportunity; so generally, opportunities for skills and devolution of skills funding, so that that can be targeted and made accessible locally is hugely important within the north-east. If you look at unemployment rates and skill levels, those are pretty comparable to national levels for people with level 3, level 4 qualifications, but among people with no qualifications or low qualifications, our unemployment rates are comparatively high nationally. Again, looking at what is driving that lack of skills, that unemployment among low skilled people, and working locally to get the right skills provision but also to make that accessible and to drive uptake and engagement.

Andrew Lewis: When we characterise industrial policy maybe we too easily start talking about big innovation and inward investment issues, but to me a really successful industrial strategy would fundamentally alter the perception that we have about things like further education, for example, that have been massively, chronically underfunded in this country.

As Anna says, there are opportunities from devolution. We will have the adult skills budget devolved to us in the Tees Valley but it is substantially lower than is necessary in order to sustain, let alone increase the levels of skills provision that we need for our local area. If you look at the resources available for further education, it substantially lags behind those available for higher education.

Something like that, which is absolutely critical not only to succeeding as a nation in our industrial strategy but also to making that success inclusive, and ensuring that people have the skills to adapt to this. We have a lot of things going against us. We have an international trend towards lower demand for low skilled workers in western economies. We have technology changes that are requiring a response from skilled labour, and we are in danger of being left behind if we do not accelerate the support that is available for people to upskill in response to that change in demand.

Q435 **Chris White:** Just a quick question. We were at NETPark earlier today, which is very interesting. I don't know I think it might have been you, Iain, who asked the question: how many women are taking on physics degrees in North Tyneside? I think the answer was two. We are talking about low pay, low skill, but you are also forgetting a whole sector or half our population. The longer term strategy is not just about whether FE is succeeding. How do we get half of our population more interested in the jobs of the future, which require skills and knowledge and degrees? Have you thought about that?

Councillor Malcolm: It starts in primary school. We are going to have to go right back here and it is going to have to start at primary school, and an interesting anecdote is one of our favourite daughters is Steph McGovern from the BBC business who hails from Middlesbrough. A couple of years ago, Steph told a roundtable in the region that she often visits Middlesbrough to talk to students who are about to leave school and go out into the world. She has a jobs fair, gets all of the employers together, about the type of jobs and the type of industries that people in this region can work in. Before they go on she asks the young people, "What do you want to do when you leave school?" and she gets the inevitable, "I want to join the Army. I want to become a beautician. I want to become a hairdresser". There is nothing wrong with any of those professions but you cannot build a stable economy just on them. Then they go in and they meet employers and, after a couple of hours, Steph says you have young women who come out and they say, "Steph, I want to become a radiologist" or "I want to become an engineer" because they have had interaction with people literally at the coalface who tell these young people, who have probably come from a history of unemployed people in their family, or who have worked in traditional industries, "This is what you need to do and these are the types of courses you need to take at school". So I think it is more investment in our education and in encouraging employers to get involved. I know they are extremely busy, but this is about the long term future of our country and I think they have to start very young.

Chris White: A very useful answer.

Nigel Foster: A minor point on that first is it is very patchy in terms of careers advice in schools as well. Fundamentally, we should shake up careers advice in schools because I think it is very poor.

Q436 **Chair:** I will come on to you in a moment, Anna, because you might want to comment on this. I want to get people's views, particularly yours, Nigel, on regional disparities in capital expenditure on infrastructure, particularly in terms of transport. Is this an important part of an industrial strategy? I was very interested that—and I think it was Andrew saying, and perhaps Iain—if you are a civil servant in London and you are getting the train from Cobham into wherever, and you are using the

South West Trains you are interested in that line. You are seeing the problems in that line and maybe something might happen with Southern Rail at the moment. People are not perhaps using the east coast and the west coast mainlines. They certainly might not be going from Darlington over to Manchester, so is that part of the problem? What do we need to do to address that big imbalance in infrastructure spend between regions?

Nigel Foster: The answer to address the imbalance is to spend more money; that is quite a simple way to answer.

Q437 **Chair:** Where does that money come from? In a devolved environment, does that mean it has to be raised locally rather than from Whitehall?

Nigel Foster: There are several things we have touched upon here. It depends on the different devolution models, because you could be raising money locally to spend on a whole range of things: if you are in Tees Valley, you could be raising money to spend on skills or on transport or something else; if you are in Manchester, you could be raising money and spending it on skills, transport, health and other things. It depends on the individual devolution model. You cannot spend that money twice, so it depends on what the set of local priorities are to spend that money.

Clearly, Transport for the North and our partners—19 local authorities and 11 LEPs—are very certain that there is an imbalance in the level of expenditure in transport. That doesn't allow us to achieve certain things that transport is a facilitator of. We talked a lot here about sectors; we talked a lot about mission; we talked about various aspects. What we are promoting is using infrastructure to create a framework that facilitates success and facilitates industries to thrive where they are best placed. We are losing out in the north, because we do not have the level of transport infrastructure in place that delivers certain outcomes.

For example, if we were to invest in the Northern Powerhouse rail project, which we have been promoting within the north and within Transport for the North, we would increase tenfold the number of people who are within 75 minutes of four or more major cities in the north. That would enable those labour markets for businesses to expand and demonstrate to those businesses that, if you do locate in Leeds or Darlington or Newcastle—wherever it is—you have access to a much bigger labour pool and those people have much better access to jobs.

Q438 **Chair:** But how would you address the point that civil servants and Ministers have raised, that if you have £1 of spend on transport—and you cannot spend it twice—you use it to alleviate congestion in London and south-east rather than spark economic regeneration in the north?

Nigel Foster: That is a particular challenge that we are grappling with at the moment. We are working with HMT and the Department for Transport economists about how we address that particular issue. It is a challenge, because at the moment it is all demand-led, marginal or incremental change in transport that delivers a certain set of outcomes. We are looking to see what transformation will look like and how that impacts on the tax take or the benefit of expenditure that might be coming out of central government anyway.

Q439 **Chair:** Anna, anything to add?

Anna Round: I would agree absolutely with that, yes. Looking at what transport can do and how can transport work in ways that aren't part of how we think about movement around the north is important, and looking at the potential of transport investment, what can that bring in. Also investment in research and development is another huge part of making that difference that Nigel is talking about, so making that transport connect, different kinds of things.

This is just about relevant, but to come back in on the point about careers development, because something else that transport does is to connect people to jobs, again in ways that may involve a bit of cultural change, a bit of different thinking culturally about what sort of job, what sort of place might you go to within the north. There is some exciting work going on in the north-east LEP at the moment in a project partnered with the Gatsby Foundation on careers development.

That point around women going into science and technology areas—it is an area I have worked in for a lot of my career—is really interesting. It is a huge area of cultural change. We are within living memory of a completely different kind of working landscape, especially for women, but across the workforce, and we are within living future of a completely different workforce. People tend to know about the jobs that their family and community do and that knowledge is not very useful.

Q440 **Chair:** We only have a couple of minutes, so Iain and Andrew, very quickly.

Iain Malcolm: Can I make one plea in terms of your recommendations, Chair, when your colleagues meet? I support the industrial strategy. I think the Secretary of State gets it, because he is from our region and he understands the need to rebalance the economy and to give some support. The importance of local government and the support that local government can give to business and so forth needs to be and should be reflected perhaps in your recommendations.

I was just reflecting yesterday, Chair—very quickly—if Nissan today were looking to invest in the United Kingdom, I don't know whether or not the north-east region would be able to put together the incentive package that the Tyne and Wear County Council and the Northern Development Agency put together at the time when Nissan were choosing either to come to the north-east or to come to Wales.

Chris White: That is one statement we had an inquiry on.

Q441 **Chair:** I am going to finish in a minute, but Andrew wants to come in very briefly. We only have a minute left.

Andrew Lewis: Chair, I was going to come in on transport, but it covers other things too. I think the north generally will benefit the more transport is seen as part of an economic strategy to achieve wider outcomes rather than just transport for its own sake. The same argument can be made about skills and support for inward investment. The more we can see joined-up, well-resourced local partnerships able to be responsive to different requirements, to put strong cases to Government where things can only be done by national Government, but by taking responsibility locally in a much more joined-up and devolved way, we will have a better economic strategy, not just for local areas, but for the UK as whole.

Nigel Foster: Chair, sorry, and over a long term, because transport investment is long term, so we have to have a consistent approach to transport investment.

Chair: Thank you very much for your time. Thank you for giving evidence. We are very grateful.